DOCUMENT RESUME

ED 228 950 HE 016 119

TITLE	Guaranteed Student Loans: A Background Paper. Report No. 1.
INSTITUTION	National Commission on Student Financial Assistance, Washington, DC.
SPONS AGENCY	Congress of the U.S., Washington, D.C.
PUB DATE	Mar 82
NOTE	46p.
PUB TYPE	Historical Materials (060) -- Information Analyses (070) -- Reports - Descriptive (141)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	*Eligibility; *Federal Programs; Government Role; Loan Repayment; Postsecondary Education; *Program Administration; Program Costs; *Public Policy; Student Financial Aid; *Student Loan Programs
IDENTIFIERS	*Guaranteed Student Loan Program; *National Comm on Student Financial Assistance

ABSTRACT

The Guaranteed Student Loan (GSL) program's current operations, legislative history, and growth are reviewed, along with research needs. GSLs are made by lenders to college students, and the federal government guarantees them and provides incentive payments to lenders and subsidy payments on behalf of students until loan repayment begins. Today, the GSL program is the largest single source of student financial assistance. In fiscal year 1982 over 3.5 million students will secure GSLs, and the average size of these loans will be over $2,100. The vast majority of GSLs are guaranteed by state guaranty agencies that administer the GSL program. These agencies are then reinsured by the federal government for loans. A major participant in the program has been the Student Loan Marketing Association, which provides a secondary market for GSL lenders. The following specific aspects of the program are examined: the in-school interest subsidy, the special allowance, defaults, trends in loan volumes, borrower rules, lender rules, program costs and the administrative aspects of the GSL program from the viewpoint of all participants. (SW)

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National Commission on Student
Financial Assistance

Guaranteed Student Loans: A Background Paper

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HE 016 119

Report No. 1
March 1982

The National Commission on Student Financial Assistance was created by Public Law 96–374, the Education Amendments of 1980. During the congressional deliberations on those amendments, it became clear to the Congress that there was a general lack of reliable information and well-informed policy recommendations with respect to many of the most fundamental and important federal student assistance policy issues. The National Commission was established to correct this situation and to serve as a reliable policy agent for the President and the Congress.

Established in 1981, the National Commission is a bi-partisan panel of members of Congress, leaders in the higher education community, and representatives of the public. The panel is composed of twelve members, four appointed by the President of the United States, four by the House of Representatives, and four by the United States Senate.

The final report of the National Commission is due on July 1, 1983.

I. Foreword

The Guaranteed Student Loan Program is the largest single source of student financial assistance in this country. During the 1981–82 school year, over 3 million students will be able to borrow $8 billion through the GSL Program to assist them in financing their dream of postsecondary education.

Yet, although it is such an important program, it is surrounded by myths and misconceptions, and there is much that is not known about it. This paper is an attempt to look at the Guaranteed Student Loan Program analytically, first explaining what the program is today, and how it got there. The paper will attempt to describe the participants in the program, and the rules that govern their participation. Finally, it will raise several issues about which we have little or no knowledge, and suggest ways that this knowledge could be gathered.

This paper has been prepared by the National Commission on Student Financial Assistance. Selected portions of this paper were initially drafted under contract to the Commission by Arthur Hauptman, Lawrence Gladieux, and the Washington Office of the College Board.

In addition, the Commission is grateful to Joel Packer of the National Association of State Universities and Land Grant Colleges, David Patterson of the Higher Education Assistance Foundation, Pat Smith of the American Council on Education, Dr. Thomas Wolanin of New York University, and Floyd Stoner of the staff of Congressman David Obey for their comments, suggestions, and help in the preparation of this paper.

Scott Miller, Research Associate to the Commission, did the major staff work on this project.

The Commission hopes that this paper will assist federal policy makers, officials at postsecondary institutions, and others in understanding the Guaranteed Student Loan Program—a crucial, but complex federally sponsored student assistance program.

Table of Contents

	Page
I. Foreword	III
II. Summary	1
III. Glossary	5
IV. The Current Program	11
V. Legislative History	15
VI. Growth in the Guaranteed Student Loan Program	21
VII. The Current Program—Participants and Rules	27
VIII. GSL Research: The Need to Know More	35
IX. GSL: Steps in the Process	39
Endnotes	44

II. Summary

The Guaranteed Student Loan Program is a federal program which assists students in securing loans that help them finance their post-secondary education. Under this program, no loans are actually made by the Federal Government. Instead, the loans are made by a variety of lenders, and the Federal Government guarantees them. In addition, the Federal Government provides incentive payments to lenders to encourage their participation in the program, and it makes interest subsidy payments on behalf of students until those students begin repaying their loans.

Today, the Guaranteed Student Loan Program is the largest single source of student financial assistance in this country. But that has not always been the case. The program was begun modestly under the Higher Education Act of 1965 as an attempt to provide a means of assisting low and middle-income students finance their postsecondary education. The program was also originally proposed as an alternative to tuition tax credits, which were being forwarded in the Congress at that time. However, over the years the program has grown, and during this growth the program has been expanded so that an increasing number of students have been made eligible for its benefits. In fact by 1979, every American family, without regard to income, was eligible for a subsidized loan to aid in financing postsecondary education. More recent action by the Congress has concentrated on limiting eligibility for the program and reducing its cost to the Federal Government.

Since its inception, more than 18 million loans have been issued under the program totalling nearly $30 billion. During the 1981–1982 school year, over 3 million students will borrow an estimated $8 billion.

Program Participants

Information on those who borrow under the Guaranteed Student Loan Program is not readily available. Fiscal year 1982 will see over 3.5 million students securing Guaranteed Student Loans, a fourfold increase over fiscal year 1979. Over 90 percent of these loans will be made by banking institutions and credit unions. The average size of these loans will be over $2100. In fiscal '82, graduate students will comprise an estimated 20–25 percent of borrowers but will borrow over 30 percent of total GSL dollars loaned.

The vast majority of Guaranteed Student Loans are guaranteed by state guaranty agencies that administer the GSL Program. These agencies are then reinsured by the Federal Government for loans made under their auspices. State guaranty agencies also play a major role in locating capital to finance new loans.

A major participant in the program has been the Student Loan Marketing Association (Sallie Mae). Created by Congress in 1972, Sallie

Mae provides a secondary market for GSL lenders. This enables lenders to exchange or pledge their student loan holdings for cash or short term assets. Sallie Mae has grown rapidly in terms of the size of its holdings and its value to the continuing viability of the GSL Program.

Program Rules

The rules governing the Guaranteed Student Loan Program have changed over the years. The following sketches the current rules of the Guaranteed Student Loan Program and reflects changes made by the 97th Congress:

- ***Borrower Eligibility:*** All students with family incomes of $30,000 or below are eligible for Guaranteed Student Loans up to the maximum amount. Students with family incomes above $30,000 continue to be eligible only to the extent of their "remaining need" based on a comparison of costs and resources available to the student—including expected family contribution—as documented by the college financial aid officer. In essence, under the new rules, families above $30,000 will no longer be able to substitute a GSL for what they are expected to contribute to the student's cost of education.
- ***Interest Rates:*** The interest rate for Guaranteed Student Loans is 9 percent. Those who borrowed prior to January 1981, are still eligible for the 7 percent rate charged previous to the passage of the 1980 Higher Education Amendments.
- ***Maximum Loan Amounts:*** Undergraduates may borrow up to $2,500 annually, and $12,500 cumulatively. Borrowers enrolled in graduate or professional programs may borrow up to $5,000 annually and their overall borrowing limit (for both undergraduate and graduate/professional loans) is $25,000. At the discretion of the Secretary of Education, the $25,000 limit may be raised for groups of graduate or professional students with exceptionally high costs of attendance. Borrowing in other loan programs such as the National Direct Student Loan Program does not affect these limits. In order to reduce the number of small (generally less profitable and therefore less attractive to lenders) loans which might result from imposition of a needs test, the 1981 legislation also provides that students with financial need of more than $500 but less than $1,000 qualify for a minimum $1,000 GSL.
- ***Origination Fee:*** To achieve additional cost savings, the 1981 budget reconciliation legislation also authorized an origination fee. Lenders must deduct 5 percent of the face value of a loan prior to disbursing the proceeds to the borrower. This discount (similar to "points" often charged on home mortgages) will serve as a direct offset against federal obligations to lenders under the program.

Program Cost

The costs to the Federal Government for the Guaranteed Student Loan Program have grown greatly since its inception. In understanding the growth of GSL costs, it is important to recognize the difference

between loan volume and loan costs in the program. Loan volume is the total amount of dollars loaned by lenders to students in a particular year. Loan costs are how much money it costs the Federal Government in terms of interest subsidies, Special Allowances, guarantee payments, and operating expenses to generate this volume.

There are four principal components of federal program costs associated with the Guaranteed Student Loan Program:

1. While a borrower remains in school and for a grace period (six to nine months) thereafter, the Federal Government pays to the holder of the loan an *interest subsidy* on behalf of the student borrower.
2. The Federal Government also pays to the loan holder a *Special Allowance* each quarter over the life of the loan to compensate for the difference between the statutorily set interest rate charged to borrowers and a market rate of return; the payment is based on the total dollar value of student loans held.
3. Lenders are *guaranteed* for both principal and interest in the case of death, disability, default, or bankruptcy of the borrower. This guarantee is generally a two-step arrangement in which state-authorized agencies agree to insure lenders, and the Federal Government then reinsures the state guaranty agencies, usually at one hundred percent of the defaulted amount.
4. The Federal Government incurs certain *operating expenses* in maintaining the GSL Program. These costs include those for computer support, the staff of the GSL Branch of the Office of Student Financial Assistance, the processing of Special Allowance and in-school interest claims, the payment of the Administrative Cost Allowance to state agencies, and others.

These cost components have fluctuated in their relative contribution to the total yearly cost of the program. As the amount of outstanding loans has increased so has the proportion of total GSL costs comprised of Special Allowance payments. The Special Allowance must be paid out until the loan is fully repaid by the borrower, defaulted, or the debt is cancelled due to bankruptcy, total and permanent disability, or death. In-school interest payments cease once the loan enters repayment and default-related costs are kept under control through federal, state, and lender efforts to encourage borrower repayment.

In addition to the federal costs of the GSL Program, there are a number of other, less obvious, expenses borne by participants in the processing of GSLs. Most notable among these are academic institutions. The financial aid office at a GSL applicant's institution performs a number of functions including calculating the extent of the student's eligibility, validating data on the application, and verifying the student's enrollment status and educational cost. In some instances, institutions are also responsible for disbursing loan payments directly to students. The costs for staff and processing associated with these tasks must be absorbed by the institution.

Program Research

There are an overwhelming number of possible areas of research regarding the GSL Program, from the collection of basic demographic data on borrowers, to the reworking of various program provisions, to devising alternative lending schemes.

The National Commission on Student Financial Assistance will play a major part in this effort through its analysis of many issues concerning the costs, regulations, and impacts of the GSL Program. It is essential that decisions regarding the future of the program rely as heavily as possible on empirical data rather than on conjecture and estimates.

III. Glossary

The Guaranteed Student Loan Program has spawned a unique set of terminology throughout its 17 year history. Presented below are some of the major program definitions. Knowledge of these terms is a prerequisite to a thorough comprehension of this most complex program. It is hoped that this section will also add to the ease of understanding of this paper.

Administrative Cost Allowance (ACA): in order to assist guaranty agencies in covering their overall administrative expenses, the Federal Government pays these agencies an amount equal to up to 1 percent of the principal amounts that they insure annually. Guaranty agencies apply quarterly for ACA reimbursement and must submit justifications for their requests.

cancellation: a Guaranteed Student Loan may be cancelled, and the guarantee collected by the lender due to the death or disability of the borrower or following a borrower's settlement in a bankruptcy action.

collection agency: an organized business that specializes in collecting payment on defaulted or delinquent loans. Collection agencies usually bill lenders based on a percentage of the amount they collect from overdue borrowers and are most often private, profit-making ventures.

default: a loan is considered to be in default when a borrower fails to make an installment payment when due, fails to establish a repayment plan, or violates other terms of the loan agreement such that the Education Department can reasonably conclude that the borrower no longer intends to repay the loan. Default claims are usually considered when payment is 120 days overdue.

deferments: when a borrower meets specified conditions that enable him or her to postpone payment of loan principal and interest (e.g., for continued study, military service, certain voluntary service, disability, and other reasons). While a loan is in deferment status, the Federal Government continues to pay the in-school interest subsidy.

dependent student: a student who is considered to be dependent on his or her parents and/or guardians for support. (Also see: independent student)

due diligence: as applied to the GSL Program, the expectation that those involved in awarding, servicing, and collecting loans will utilize practices that adhere to the standards that financial institutions follow in administering all consumer loans.

eligible borrower: a student currently attending an accredited post-secondary institution on a half-time or more basis in an undergraduate or a graduate program is eligible to borrow under the GSL Program. Eligible borrowers must meet current financial or need requirements which will determine the maximum amount that they may borrow.

Expected Family Contribution (EFC): the amount calculated according to a standard need analysis formula that a family will be expected to pay towards a given student's postsecondary education. This contribution is based on family savings; parent's, student's, and/or spouse's income; non-taxable income sources; and assets. The amount of the EFC is then offset by the size of the family, the number of family members enrolled in postsecondary education, and other factors. For GSL applicants who have not received campus based aid (i.e., NDSL, CWS, SEOG), the school is permitted to use a simplified analysis which does not include assets.

Federally Insured Student Loans (FISL): a program that provides insurance to lenders who are not adequately served by a guaranty agency. Under FISL, loan capital is made available for students under identical rules to the GSL Program in areas not served by a guaranty agency or for lending directly through academic institutions. FISL insured only 5 percent of all guaranteed loans issued in fiscal year 1981. This percentage has steadily decreased as states have established guaranty agencies under a program of federal incentives.

grace period: a period of time in which a GSL borrower does not have to repay a loan. Once a borrower graduates, withdraws from school, or falls below half-time status, the grace period begins. Repayment of a GSL does not commence until either six or nine months after the start of the grace period depending on when the loan was made and under what conditions. The in-school interest subsidy continues to be paid during the grace period.

guaranty agency: a state or nonprofit entity that administers the student loan insurance program in a state. Guaranty agencies serve as the middlemen in the process of locating capital to finance GSLs.

independent student: a student who is considered to be self-supporting under federal criteria. For the year of application for aid and the calendar year preceding it, an independent student *cannot:*

1. be claimed as an exemption for federal income tax purposes by his or her parents and/or guardian;
2. receive more than $750 in financial assistance from his or her parents and/or guardians; and
3. live for more than six weeks in the home of his or her parents and/or guardians.

Failure to meet any of these provisions results in the student being classified as dependent. Married students, however, must only prove independence for the year of aid application.

in-school interest subsidy: during the time that a borrower is enrolled in a postsecondary institution on a half-time or more basis and during the grace period, the Federal Government pays the interest that accrues on a GSL. The in-school interest subsidy is paid directly to the lender. The student is not required to repay this subsidy.

insurance premium: a fee charged by guaranty agencies in order to cover a portion of default and administrative expenses. Currently, the agencies charge students up to 1 percent times the length of a student's in-school status plus the grace period, i.e., a freshman may be charged 1% $\times$ 4 years + 1 year grace period equals 5%. For loans made under the FISL program, the insurance premium is equal to one-quarter of one percent per year until repayment.

loan guarantee: the legal promise made by the Federal Government or the guaranty agency to repay lenders for reasonable interest and the principal amount of loans defaulted or rendered uncollectable due to bankruptcy, death, or disability of the borrower. This guarantee by the government is a key incentive for private lending under the GSL Program.

National Direct Student Loan Program (NDSL): part of the campus-based federal student assistance programs, the NDSL Program provides low interest (5 percent) loans to students of sufficient need as determined through the uniform methodology or other systems of need analysis approved by the Education Department. NDSLs are disbursed and serviced directly by postsecondary institutions and are generally awarded in smaller amounts than Guaranteed Student Loans.

origination fee: as authorized in 1981, a fee that each student must pay to receive a loan. The lender subtracts 5 percent from the face value of the loan and returns it to the federal treasury as an origination fee, thereby, offsetting and reducing federal payments to the lender. Borrowers are still liable for repaying the entire amount of the loan under this system set up to reduce federal costs in the GSL Program.

PLUS loans: created by Congress in 1980 as Parent Loans for Undergraduate Students and modified in 1981, the PLUS Loan Program (technically named Auxiliary Loans to Assist Students) offers higher (14 percent) interest loans to parents, independent undergraduate students, and graduate students. No in-school interest subsidy applies to these loans which are disbursed through non-federal lenders. Repayment of PLUS loans commences 60-days after disbursement except for full-time students who must pay only the interest at that time. Currently, the PLUS Program offers loans in only a limited number of states.

promissory note: the document, signed by the borrower at the time a GSL is awarded, that legally binds the borrower to the statutory terms and conditions of the loan, to repay the loan, and to use the loan funds for educationally related purposes only.

reinsurance: the process through which the Federal Government insures loans guaranteed by state guaranty agencies.

remaining need: for purposes of determining the amount of a GSL, remaining need is defined as the difference between the total of a borrower's expected family contribution plus other forms of student financial assistance and the total cost of education. A GSL may not be issued for more than a borrower's remaining need if the family income exceeds $30,000.

secondary market: a means through which holders of loan notes sell them to a third party (e.g. Sallie Mae or another lending institution) for the face value of the loan portfolio or other negotiated price. Once sold, the secondary marketer is given total responsibility for the future servicing and repayment of the loan unless a warehousing agreement has been reached. (Also see: warehousing)

servicing: the activities involved in awarding and collecting loans; including: tracking borrowers while in school, billing borrowers when the loan is due, and carrying out collections activities to ensure continued repayment.

Social Security Educational Benefits: a program that provides support to dependents of Social Security beneficiaries while they are enrolled in postsecondary education on a full-time basis up to the age of 22. This program will be phased out by FY 85 and no new recipients may receive these benefits after May 1982.

Special Allowance: the Federal Government pays each lender in the GSL Program a quarterly Special Allowance fee throughout the life of a loan. The Special Allowance is equal to the bond-equivalent rate on U.S. Treasury bills minus the interest rate on the loan plus 3.5 percent and is paid on the unpaid principal balance of all eligible loans held by the lender. Its purpose is to compensate for the difference between the interest rate the lender receives and the market rate for borrowing.

Student Loan Marketing Association (Sallie Mae): a private corporation created as part of the Education Amendments of 1972 as a means for encouraging private lending under the GSL Program by providing a vehicle through which lenders could sell or borrow against their student loan portfolios. (Also see: secondary market and warehousing)

Treasury Bill interest rate: as applied to the GSL Program, the average bond equivalent rates of 91-day United States Government Treasury Bills auctioned for a given quarter are used as the basis for determining the amount of Special Allowance payments to lenders. The bond equivalent rate is the actual yield for the Treasury Bill as opposed to its discount rate.

Uniform Methodology: the most widely used system for determining and measuring the ability of a family to contribute to a given student's postsecondary education. Uniform Methodology is approved by the

Department of Education and is performed by private need analysis services. (Also see: expected family contribution)

Veterans Administration Education Assistance: benefits available for those who served in the military and are currently engaged in post-secondary education. The amount and nature of these benefits varies according to the date of initial entry into military service.

warehousing: the use of loans made by a lender as collateral for borrowing funds from Sallie Mae. The amount of collateral that Sallie Mae requires to enter into a warehousing arrangement varies, but will exceed the face value of the loan. Sallie Mae ensures the lender a margin of profit by tying its warehouse loan rates to the Special Allowance rate. The loans used as collateral continue to be owned by the original lender who is responsible for all servicing and collections activities.

IV. The Current Program

As will be discussed later in this paper, the Guaranteed Student Loan Program has gone through a number of revisions since it was created as part of the Higher Education Act of 1965. Until 1981, the program had grown steadily as a source of financial assistance for students attending postsecondary institutions. In general, the program had been altered to ensure an adequate rate of return to lenders, make more students eligible for the in-school interest subsidy, provide greater incentives for states to establish guaranty agencies, adjust permissible loan amounts to the rising cost of going to college, and provide a secondary market for student loan paper.

In response to the rising costs of GSL, proposals were advanced in 1981 to change the program and reduce federal expenditures. The most controversial part of the plan for cutting costs was the proposed termination of the federal in-school interest subsidy for all new loans. Congressional testimony suggested that the neediest students would be particularly hard-pressed to make interest payments during their school years, or to handle the increased indebtedness if the interest was deferred, compounded, and added to the repayment obligation. It was also assumed that lenders would balk at a system that required them to wait until borrowers left school before they could recoup any part of the interest that accrues while the borrower is still enrolled.[1] In fact, it was stated in hearings before the Congress that many small lenders would not participate in the GSL Program if such a change was implemented. Additional concern was expressed that the needs test requirement advanced by the Administration as a cost savings device might cause lenders to reduce their participation in the program because of additional paperwork resulting in reduced profitability per dollar loaned. What loans they did make would likely be reserved for their best, and often their wealthiest, customers. Questions were also raised concerning the Administration proposal to set interest for PLUS (auxiliary) Loans at the market rate at the time of the loan. Critics claimed that such a proposal would have ended chances of getting this program off the ground because lenders would not make these loans, since they would not be assured a variable yield linked to changes in general interest-rate levels. Neither the proposal to eliminate the GSL in-school interest subsidy nor the plan to set PLUS Loan interest rates at fixed market levels were adopted by the Congress.

The result of the debate on these proposed GSL revisions was a series of alterations to the program that attempted to strike a balance between controlling the costs of the program while still providing incentives for lenders to issue loans to all eligible borrowers. These changes,

enacted by Congress in the Omnibus Budget Reconciliation Act of 1981, were:

- ***Borrower Eligibility:*** All students with family incomes of $30,000 or below are eligible for Guaranteed Student Loans up to the maximum amount.[2] Students with family incomes above $30,000 continue to be eligible only to the extent of their "remaining need" based on a comparison of costs and resources available to the student—including expected family contribution—as documented by the college financial aid officer. In essence, under the new rules, families above $30,000 will no longer be able to substitute a GSL for what they are expected to contribute to the student's cost of education.

  Eligibility for the PLUS Loan Program was extended to financially independent undergraduate students and graduate students.

- ***Interest Rates:*** The interest rate for the Guaranteed Student Loan was kept at 9 percent. Those who borrowed prior to January 1981 would still be eligible for the 7 percent rate charged previous to the passage of the 1980 Higher Education Amendments.

  The interest rate for the PLUS (auxiliary) Loan Program was increased from 9 percent to 14 percent with the stipulation that if the 12-month average on 91-day Treasury Bill rates drop below 14 percent, the interest rate will be reduced to 12 percent. If the Treasury Bill rate goes back up, the interest rate will be increased back to 14 percent.

- ***Maximum Loan Amounts:*** The maximum loan limit for independent undergraduates was reduced from $3,000 annually and $15,000 cumulatively to $2,500 annually and $12,500 cumulatively. Loan limits for dependent undergraduates were kept at the levels established in the 1980 Higher Education Amendments of $2,500 annually and $12,500 cumulatively. The loan limits for borrowers enrolled in graduate or professional programs were also kept at the levels established in the 1980 Higher Education Amendments: $5,000 annually with an overall borrowing limit (for both undergraduate and professional loans) of $25,000. At the discretion of the Secretary of Education, the $25,000 limit may be raised for groups of graduate or professional students with exceptionally high costs of attendance. Borrowing in other loan programs such as the National Direct Student Loan Program does not affect these limits. In order to reduce the number of small (generally less profitable and therefore less attractive to lenders) loans which might result from imposition of a needs test, the 1981 legislation also provides that students with financial need of more than $500 but less than $1,000 qualify for a minimum $1,000 GSL. Students with demonstrated need of $1 to $499 are eligible for a loan up to the amount of need if a lender can be found who will make the loan.

- ***Origination Fee:*** To achieve additional cost savings, the 1981 legislation also authorized an origination fee. Lenders must deduct

5 percent of the face value of a loan prior to disbursing the proceeds to the borrower. (This fee is in addition to an insurance premium.) This discount serves as a direct offset against federal obligations to lenders under the program.

- ***Other Changes:*** The minimum annual repayment requirement on GSLs was increased from $360 to $600 per year.

  All grace periods following deferments were eliminated for loans disbursed on or after October 1, 1981.

  The treatment of student Social Security benefits and GI Bill payments was changed in calculating need. These benefits are now to be counted at 100 percent of their value in determining need for a GSL.

These measures, taken as a legislative package, are intended to control the costs of the GSL Program. However, as will be considered later, a significant portion of the costs associated with the program involve payments directly to lenders, which are largely contingent on market interest rates. Such costs are more difficult to reduce since much of the money is obligated as payment on loans that have already been made to eligible borrowers. The following is a summary of the legislative history of the Guaranteed Student Loan Program.

V. Legislative History

The Guaranteed Student Loan Program was established as part of the Higher Education Act of 1965. This act solidified the Federal Government's commitment to assist in the betterment of postsecondary educational opportunities in this nation through the provision of financial aid to students. Specifically, GSL was established to provide federal incentives to encourage the use of private capital in helping students and families finance the cost of higher education. The principal source of federal leverage was to guarantee lenders against borrower default, death, disability, and bankruptcy. Because of the strength of the federal guarantee, the interest rate charged to borrowers—initially 6 percent—was set below market rates for other consumer-type loans. In addition, students with family incomes below $15,000 qualified for federal payment of interest while they remained in school. This income requirement was an attempt to focus federal subsidy payments on a target population, namely, low- and middle-income families. These families were the intended beneficiaries of the GSL Program. This income ceiling for the payment of the in-school interest subsidy became a significant provision of the GSL Program, because, in practice few Guaranteed Student Loans were made to students who did not qualify for the in-school interest subsidy.

The first substantive changes to the program were made in 1968. As market interest rates began to rise, Congress increased the interest charged to student borrowers from 6 to 7 percent. It also restated the shared federal/state responsibility for the guarantee of loans: in states that established a state agency to guarantee student loans, the Federal Government would cover 80 percent of the default cost and states were to be responsible for the remaining 20 percent. The Federal Government would continue to insure lenders directly at 100 percent of the claim where no state agency existed or when federally guaranteed loans supplemented state activities (e.g. under direct lending programs administered by academic institutions). In the latter cases, loans would be made under the auspices of the Federally Insured Student Loan Program (FISL). The FISL Program lends money under the same conditions as GSL and provides a guarantee for loans issued in states not served by guaranty agencies. It also serves postsecondary institutions that choose to lend money to their students directly from their own capital resources, such as endowments.

In the next year, 1969, as market rates continued to rise, Congress provided for a Special Allowance to be paid by the government, not the borrower, to lenders. Under this plan, lenders would receive a payment based on the dollar value of all student loans not yet repaid; the amount of the Special Allowance each quarter was to be set by a committee of government officials, but was not to exceed 3 percent, on an annual

basis, of the value of the lender's student loan portfolio (the cumulative amount that had been lent to date).

The federal role in providing financial assistance to postsecondary students was reinforced by the Education Amendments of 1972. In creating the Basic Educational Opportunity Grant (BEOG) and State Student Incentive Grant Programs, Congress continued on the path toward decreasing fiscal barriers to postsecondary education to students and their families. This 1972 legislation also introduced the concept of requiring students to demonstrate financial need as a condition of receiving the interest subsidy on Guaranteed Student Loans. As originally drafted, these GSL need requirements were found to be vague and confusing. For most of the summer of 1972, lenders refused to make Guaranteed Student Loans for fear of violating some of the provisions of the law. Finally, in August 1972, Congress passed an emergency measure rescinding these new rules. Subsequent legislation and regulations provided that students with family incomes above the statutory ceiling could qualify for payment of in-school interest if the financial aid officer at the college or university documented that a student or family had special needs. Relatively few loans, however, were made on this documented special need basis.

In 1976, the income ceiling under which families could qualify for the federal in-school interest subsidy was raised from $15,000 to $25,000 in recognition of increases in the average income of parents sending their children to college and in an attempt to continue the historical thrust of the GSL Program as an aid to middle-income families.[3]

The 1976 Amendments also provided greater incentives for states to establish guaranty agencies based on the fact that default rates were lower on loans made under state auspices. States with low default rates would be reinsured by the Federal Government at 100 percent, rather than 80 percent. States also could receive additional cost allowances to support their default collection activities. These incentives have had their desired impact as evidenced by a steadily increasing percentage of total Guaranteed Student Loans being insured initially by state guaranty agencies. In 1976, 60 percent of such lending was made via state guaranty agencies; in 1981, 95 percent of GSL lending was insured by state agencies.

Additionally in an attempt to make GSLs more attractive to lenders and, thus, make loans more readily available to potential borrowers, the 1976 legislation made the Special Allowance more responsive to changes in the market interest rates by tying it automatically to quarterly changes in the rate for 91-day Treasury bills. The formula that was adopted provided for a total return to lenders (that is, student interest rates plus Special Allowance) of the Treasury bill rate plus 3.5 percent. In addition, the cap limiting lenders' Special Allowance payments as a percentage of their student loan holdings was raised from 3 to 5 percent.

Eligibility requirements were altered again in 1978 as part of the Middle Income Student Assistance Act (MISAA). This package of legislation, which liberalized eligibility for the BEOG Program as well as

GSL, lifted the income ceiling entirely from the Guaranteed Student Loan Program. Originally, it was proposed that the income ceiling be raised to $40,000 from the previous ceiling of $25,000. After extended debate, however, it was determined that such a ceiling would render over 90 percent of postsecondary students eligible for the in-school interest subsidy. Those offering the proposal to remove the ceiling completely argued that the administrative burden involved in making over 90 percent of the population go through a complicated application process to exclude such a small percentage of students was too high. Therefore, because of a desire to expand eligibility and reduce paperwork, all income requirements for receipt of a subsidized GSL were lifted.

In order to encourage lenders to keep pace with the demand for Guaranteed Student Loans, Congress, in 1979, lifted the ceiling on Special Allowance payments to lenders. Thus, in two years Congress had altered the program dramatically in ways that would encourage GSL lending to keep pace with high demand but also raise program costs.

The Education Amendments of 1980 again reflected the continued support of Congress for providing student financial assistance. In terms of the Guaranteed Student Loan Program, it also indicated the concern of Congress that its costs could not continue to rise unchecked. In this light, Congress enacted legislation that would raise the interest rate charged to new borrowers from 7 to 9 percent and shortened the "grace period", the amount of time between a borrower's finishing school and the commencement of repayment, from nine to six months. In response to continuing increases in college costs, the 1980 Amendments also raised the cumulative amounts that students could borrow under GSL. For undergraduates, the maximum was lifted to the present $12,500 limit from the previous $10,000 aggregate ceiling, and the total GSL borrowing limit for graduate or professional school students was raised to $25,000, up from the previous $15,000. Annual GSL limits remained unchanged: $2,500 for undergraduates and $5,000 for graduate or professional school students.

The 1980 Amendments also authorized a GSL option in which parents of dependent, undergraduate students could borrow up to $3,000 per year ($15,000 total) to help in the financing of their children's undergraduate costs. The interest rate for these loans was pegged at 9 percent—the same as the student borrower rate—but repayment was to commence within sixty days of disbursement. Thus, no in-school subsidy would be available to parental borrowers. However, as with student loans, the Federal Government would pay a Special Allowance to assure the lender a market rate of return, and lenders would be guaranteed against loss due to default, disability, death, or bankruptcy of the parent loan borrower. As stated previously, this parental loan program was significantly modified by the 1981 Reconciliation Act before many loans were issued under its authority.

Another portion of the 1980 Amendments attempted to reduce the amount of profit that state agencies were realizing from the issuance of

tax-exempt revenue bonds used to capitalize their GSL Programs. This legislation halved the Special Allowance payable to states using such bond practices. Prior to this, states were earning substantial revenues due to the high rate of federal support for their GSL lending as compared to their relatively low cost of raising these funds.

Student Loan Marketing Association

Absent from the above has been a discussion of the Student Loan Marketing Association (SLMA or Sallie Mae). Created as part of the Education Amendments of 1972, Sallie Mae is a private corporation that is permitted to borrow money under federal auspices. Sallie Mae was conceived as a means for further encouraging lending under the GSL Program by allowing lenders to sell or borrow against their student loan paper. It was assumed that by creating a secondary market, or "warehouse", for student loan portfolios, lenders would be encouraged to participate in the Guaranteed Student Loan Program despite the relatively low yield and long duration of the Guaranteed Student Loans.

Since its inception, Sallie Mae has grown in size and in importance to the survival of the GSL Program. The 1980 Education Amendments envisioned a much larger role for Sallie Mae in the collection and consolidation of loans from various sources, and in raising capital for state direct lenders. A package of amendments in the 1981 Reconciliation legislation expanded Sallie Mae's list of responsibilities even further. These amendments allow Sallie Mae to serve as a loan guarantor in states where loan demand is not being met; to deal in debt obligations of state agencies; and to provide services for student loans other than GSL (e.g., loans by educational institutions using endowment funds). The 1981 legislation also broadened the authority of the Sallie Mae Board of Directors to involve that organization in any student credit activity. To finance these activities, Sallie Mae will have to rely directly on private capital sources since its ability to borrow through the U.S. Treasury was limited at the end of fiscal year 1981 (as a result of negotiations that occurred on the 1982 budget). Income derived by Sallie Mae from stocks and bonds are exempt from state and local taxation.

Summary

It is apparent that the Guaranteed Student Loan Program has had an involved and somewhat complex legislative history. Compared with other federal student assistance programs, GSL is unique, in that the costs of the program are spread out over a number of years beyond the initial outlay of funds to the student. The in-school interest subsidy is paid by the Federal Government while the borrower is still in school or in a deferment status and the payment of the Special Allowance stretches for the entire life of the loan. These factors make the objective of fiscal constraint within the program more of a challenge since

federal funds are already obligated for fifteen or more years beyond today's date. The following section identifies some of the major cost factors of the Guaranteed Student Loan Program and details their growth in terms of cost to the Federal Government.

VI. Growth in the Guaranteed Student Loan Program

The GSL Program has grown tremendously over the past seventeen years. The various alterations that the program has undergone have had major implications on the short- and long-term costs of the program. Discussions herein will center around the increases in GSL Program volume and costs to the Federal Government. It is important to recognize at this stage the difference between loan volume and loan costs in the GSL Program. Loan volume is the total amount of dollars loaned by lenders to students in a particular year. Loan costs are how much money it costs the Federal Government in terms of interest subsidies, Special Allowances, guarantee payments, and operating expenses to generate this volume. Since new loans are financed with private capital, federal expenditures for the program are not directly linked with the volume of loans disbursed in a given year; although, of course, cost to the government rises as volume increases.

There are four principal components of federal program costs associated with the Guaranteed Student Loan Program:

1. While a borrower remains in school and for a grace period (six or nine months) thereafter, the Federal Government pays to the holder of the loan an *interest subsidy* on behalf of the student borrower.
2. The Federal Government also pays to the loan holder a *Special Allowance* each quarter over the life of the loan to compensate for the difference between the statutorily set interest rate charged to borrowers and a market rate of return; the payment is based on the total dollar value of student loans held.
3. Lenders are *guaranteed* for both principal and interest in the case of death, disability, default, or bankruptcy of the borrower. This guarantee is generally a two-step arrangement in which state-authorized agencies agree to insure lenders, and the Federal Government then re-insures the state guaranty agencies, usually at one hundred percent of the defaulted amount.
4. The Federal Government incurs certain *operating expenses* in maintaining the GSL Program. These costs include those for computer support, the staff of the GSL Branch of the Office of Student Financial Assistance, the processing of Special Allowance and in-school interest claims, the payment of the Administrative Cost Allowance to state agencies, and others.

These cost components have fluctuated in their relative contribution to the total yearly cost of the program. The following table illustrates the cost to the Federal Government of the GSL Program. One can easily

follow the steady rise in federal costs. Special Allowance payments have constituted an ever-increasing share of these costs, since these payments are directly linked to interest rates. In an economy with high interest rates, and with an increase in loan volume, Special Allowance payments can only rise.

Federal Costs for Guaranteed Student Loans
(in millions of dollars)

	Fiscal Years						
Obligations	73	75	77	78	79	80	81(est)
In-School Interest	209	230	244	249	296	445	665
Special Allowance Payment to Lenders	33	87	106	195	401	820	1,500
Default-Related Costs*	64	189	198	261	302	333	370
TOTAL OBLIGATIONS	306	506	548	705	999	1,598	2,535

* Includes operating expenses.

The in-school interest subsidy cost rise can be directly attributed to the fact that all borrowers are eligible for its benefits. Costs related to loan defaults have risen steadily, but not at the same rate as other program expenses. A detailed examination of the three major cost components of the Guaranteed Student Loan Program follows.

The In-School Interest Subsidy Growth in federal payments for in-school interest obligations was modest throughout most of the 1970s. The jump in these payments since 1978 can be linked directly to passage of the Middle Income Student Assistance Act and the increase in loan volume that followed that legislation. Similarly, these costs will shrink as program volume decreases and current borrowers complete school and begin their repayment responsibilities.

In fiscal year 1978, the year before the Middle Income Student Assistance Act was implemented, slightly less than $2 billion was lent under GSL. The three succeeding fiscal years have seen annual lending volume grow to $3 billion in 1979, $5 billion in 1980, and $7.7 billion for 1981. Most of the individuals who have borrowed under the GSL Program since 1978 are still students, and as a result, the amount of loans for which the Federal Government is making in-school interest payments has grown steadily over the past three years.

Elimination of the interest subsidy income ceiling has had several major effects which explain the precipitous increase in Guaranteed Student Loan volume. Guaranteed Student Loans have been made available to a whole new group of potential borrowers. It is apparent that more and more students from middle and upper-income backgrounds have secured Guaranteed Student Loans since they became eligible to benefit from the in-school interest subsidy.

Removal of the income ceiling had other effects as well. Banks could bill the Federal Government for the in-school interest payments on all new loans, thereby allowing them to drop the previous system of double bookkeeping for subsidized and unsubsidized loans. In general,

lenders were much more willing to participate in the GSL Program. Perhaps as important, the dynamics of the GSL application process changed. Students could walk into a bank and apply for a loan without their parents being asked to provide confidential financial information. Each of these factors has contributed to the growth of GSL lending activity since 1978.

Special Allowance Special Allowance payments to lenders are now automatically tied to the 91-day Treasury bill rate. When market interest rates rise so do the obligations of the Federal Government. As the nation has experienced unprecedented high levels of interest, Special Allowance payments have soared.

In fiscal year 1981, Special Allowance payments will approach $1.5 billion, or 60 percent of total GSL costs, an increase of about $1.3 billion from fiscal year 1978. Total GSL expenditures have grown by $1.7 billion during the same period. If interest rates, instead of rising far into the double-digit range, had remained at 1978 levels (when the Treasury bill rate averaged seven percent), Special Allowance payments in fiscal year 1981 would have been approximately $800 million lower than their actual levels. Thus, almost half of the growth in program expenditures in recent years ($800 million of $1.7 billion) can be linked to the increase in market interest rates and its effect on GSL Special Allowance payments. For each one percent increase in market interest rates, approximately $200 million must be paid in Special Allowance obligations annually. Overall, Special Allowance obligations have comprised nearly 50 percent of the total growth in GSL costs.

Defaults Growth in GSL Program costs, especially during the mid-1970s, was aided by an alarming increase in default-related claims. These claims rose from about $50 million in fiscal year 1972 to $225 million in fiscal 1978. The Federal Government incurs expenses for defaults in two basic ways. First, the government spends monies in an attempt to collect overdue loans. Second, the government is obligated to repay lenders and/or state agencies for the outstanding principal and interest on defaulted loans.

Default costs increased during the mid-1970s for several reasons. First, students who borrowed GSLs in the late 1960s and early 1970s began to move in large numbers from in-school to repayment status. The amount of loans in repayment rose from less than $500 million in fiscal 1970 to about $2.5 billion in 1974. Thus, even if the default rate had been modest, federal costs would have risen as the amount of loans in repayment, and thus subject to default, increased.

But the default rate was not modest by any measure. The percentage of borrowers who defaulted on their repayment obligations began to grow when it became obvious that little collection effort was being exerted in the Federally Insured Student Loan Program. Some student borrowers took advantage of lenient bankruptcy laws that applied to young adults. And some education institutions coaxed their students into taking loans without full disclosure of loan terms and repayment obligations. For these and other reasons, the default rate climbed to approximately 12 percent of all borrowers entering repayment.

Concerns about the default rate led to a series of remedies, including expansion of the corps of government collection agents, greater use of outside collection agencies, eligibility restrictions for institutions with abnormally high default rates, use of credit bureaus and Internal Revenue Service records to track borrowers, and a heavier reliance on state guaranty agencies (which appear to have a better record of collections than the Federal Government). These efforts have, in recent years, resulted in reduced concern about GSL defaults as default costs have shown only a moderate growth, as indicated in the previous table detailing program costs.

The Department of Education has had good success with its efforts to collect overdue student loan payments, for both the GSL and National Direct Student Loan Programs. However, the Education Department has recently instituted employee reductions among its many branches. Among these reductions have been several hundred temporary employees hired over the past few years who have contributed to the success in reducing the default rate and collection costs. The Department proposes that private collection firms can do this job more effectively. For the short term as accounts are transferred to private collection agents (which retain a percentage of the monies they collect), it can be assumed that the overall rate and the cost of defaulted loans to the Federal Government could rise.

Trends in Loan Volumes

The following table indicates the growth in GSL lending volume, the number of borrowers, and the average loan size since the program began. Several trends are worth noting. After an initial reliance on state guaranty agencies during the 1960's, direct federal insurance became the principal guarantee mechanism in the early 1970's. Measures to encourage wider participation of state guaranty agencies in the Guaranteed Student Loan Program that were authorized as part of the Education Amendments of 1976 started the trend back toward state guaranty agencies that has occurred in the past few years.

As mentioned previously, the decreases in borrowing during fiscal years 1973 and 1974 were caused principally by the lingering confusion over the attempt to impose a need test for Guaranteed Student Loan borrowers. (The decline in 1977, on the other hand, is a statistical aberration due to the fact that summer borrowing for the 1976–1977 academic year is included in fiscal year 1976 data because of the change in the federal fiscal year, thus artificially inflating the 1976 figures.)

The table also illustrates the remarkable growth in GSL borrowing since 1978 when the income ceiling in the program was eliminated. Volume in the three years since the passage of MISAA equals the amount lent in the preceeding thirteen years. The average size of Guaranteed Student Loans has grown at a steady pace in part due to the rising costs of postsecondary education and the periodic extension of single and cumulative loan limits.

Trends in GSL Borrowing
Loan Volume (million of dollars)

	Fiscal Years												
	1966–1969	1970	1971	1972	1973	1974	1975	1976*	1977	1978	1979	1980	(est.) 1981
Direct Federal Insurance (FISL)	$ 284	354	484	708	655	612	661	740	500	473	541	504	427
State Guarantee/ Federal Reinsurance	$1,135	457	531	566	516	528	637	1,088	1,037	1,485	2,443	4,336	7,308
TOTAL	$1,419	811	1,015	1,224	1,171	1,140	1,298	1,828	1,537	1,958	2,984	4,840	7,735
Percent of Borrowing under State Guarantee	80%	50%	52%	44%	47%	46%	49%	60%	67%	76%	82%	90%	94%

* Includes lending during transition quarter (July–September, 1976) when dates of federal fiscal year were changed.

Trends in GSL Borrowing
Number of Borrowers (in thousands)

	Fiscal Years												
	1966–1969	1970	1971	1972	1973	1974	1975	1976*	1977	1978	1979	1980	(est.) 1981
Direct Federal Insurance (FISL)	331	365	482	692	599	507	505	522	322	268	277	238	189
State Guarantee/ Federal Reinsurance	1,291	498	535	509	431	431	486	776	651	817	1,233	2,076	3,333
TOTAL	1,622	836	1,017	1,201	1,030	938	991	1,298	973	1,085	1,510	2,314	3,522
Average Loan	$ 875	940	998	1,019	1,137	1,215	1,310	1,408	1,580	1,805	1,976	2,092	2,196

* Includes lending during transition quarter (July–September, 1976) when dates of federal year were changed.

Source: Guaranteed Student Loan Program, Loan Volume Update, FY 1981.
Office of Student Financial Assistance, U.S. Department of Education.

Approximately $30 billion worth of Guaranteed Student Loans have been disbursed during the life of the program, from 1966 through the end of fiscal year 1981. Although information on loan status is not totally reliable, it has been estimated that of this $30 billion total:

- over half (between 50 to 60 percent) are loans in which the borrower is still in school or in grace period status. Most of these still in-school loans are from the last three years of high borrowing;
- about 15–20 percent are loans which are currently in repayment;
- another 15–25 percent of the lending volume has been repaid; and
- between 5 to 10 percent are loans which were defaulted.

Thus, the Federal Government is presently making in-school interest subsidy and/or Special Allowance payments on between $19 to $24 billion of outstanding loan principal.

For the parent loan program, volume was extremely modest in its initial year of operation. Unofficial Education Department figures place 1981 volume at $25 million, representing 10,000 borrowers. Only a handful of states started parent loan operations in 1981. The Department predicts that a majority of states will participate in the PLUS Loan Program in time to lend money for the 1982–83 academic year.

Summary

The Guaranteed Student Loan Program has grown greatly in size since it was first created. This growth has been coupled with an increase in program costs. Federal costs are primarily centered in the Special Allowance payment to GSL lenders (the single largest and longest term expense item), payment of the in-school interest subsidy until loans go into repayment status, and default-related expenditures. Loan volume and the average amount of Guaranteed Student Loans have shown a steady rise through the years. For 1981, estimates place total loan volume at $7.7 billion and the 1981 cost to the Federal Government will be approximately $2.5 billion.

VII. The Current Program—Participants and Rules

As presently structured, the Guaranteed Student Loan Program differs markedly from the proposal adopted in 1965. Previous sections of this paper have outlined the history and cost implications of the program. This section endeavors to detail the various facets of the program. The discussion is divided into those portions of the program that apply to borrowers and those of concern to lenders of Guaranteed Student Loans.

GSL Borrowers

For the academic year 1981-82, over 3 million students will borrow in the GSL Program. This figure represents approximately 30 percent of all students in postsecondary education on a half-time or more basis. This compares to the 1 million students who borrowed for the 1978-79 academic year, which represented about 15 percent of the eligible student population.

Data on the characteristics of GSL borrowers are distressingly scarce or unreliable. GSL applications have not required information on the family income of borrowers since passage of MISAA in 1978. Information that does appear on GSL applications is not systematically collected, recorded, or analyzed. States appear to maintain better records on the characteristics of their borrowers, but this information is not necessarily indicative of national totals. The following descriptions of the GSL borrower population are, at best, rough estimates based on limited, available data.

Prior to 1978, relatively few loans were made to students with family incomes above the $25,000 income ceiling then in effect for the receipt of the in-school subsidy. Available state data suggests that since 1978 a rising share of loans are provided to middle-and higher-income students. It would appear that 30-40 percent of loans for academic year 1981-82 are for borrowers with family incomes above $30,000. The share of higher income GSL borrowers should drop in future years with implementation of the recent needs test for borrowers with family incomes above $30,000.

Students who are financially independent of parental support represent a large and growing share of GSL borrowers. Based on rising trends of independent students in other student assistance programs, it appears that 40 percent of GSL borrowers are financially independent. Virtually all of these borrowers have family incomes below $30,000 and thus will continue to qualify fully for the federal in-school interest subsidy.

Graduate and professional students are perhaps the fastest growing contingent of GSL borrowers. It is estimated that between 20-30 percent of current GSL borrowers are graduate and professional students and they borrow 25-35 percent of total lending volume. (The higher percentage of dollar volume is occasioned by the higher limits that apply to graduate and professional student borrowers.) Since most graduate and professional borrowers are independent of parental financial support, their borrowing should be relatively unaffected by imposition of the $30,000 income ceiling on blanket GSL eligibility. In many cases, however, graduate students must rely on Guaranteed Student Loans as the only source of aid available to them.

Students attending private, independent institutions are very active participants in the Guaranteed Student Loan Program. Their higher cost of education necessitates more borrowing and larger amounts of individual loans.

Students at proprietary institutions may also secure Guaranteed Student Loans at a higher rate due to their lack of access to other aid sources; many of these schools do not participate in the campus-based programs and offer no institutionally financed student assistance.

Borrower Rules

Academic Eligibility Individuals are eligible to borrow under the Guaranteed Student Loan Program if they are attending (in good standing) or are accepted for attendance at a postsecondary institution certified for participation in the program. Eligible institutions include traditional four-year and two-year colleges and universities as well as a wide variety of trade, technical, professional, vocational, and career schools—a total of over 7,500 institutions.

PLUS loans were initially available to the parents who provide financial support to their undergraduate children. The 1981 Reconciliation legislation extends eligibility for PLUS loans to graduate or professional students and to undergraduates who are financially independent of their parents if they are enrolled on at least a half-time basis.

Interest Rates For students who borrowed in the GSL Program on or before January 1, 1981, the interest rate is 7 percent. For those who began borrowing in GSL after that date, the interest rate is 9 percent. (A provision in the 1980 Education legislation would lower the interest rate for new borrowers to 8 percent if the bond equivalency rate for 91-day Treasury bills falls below 9 percent for a full year.)

The interest rate for PLUS loans is 14 percent as of October 1, 1981. (If the bond equivalency rate for 91-day Treasury bills falls below 14 percent for a full year, the interest rate for new auxiliary loans will drop to 12 percent.) The relatively few parent loans made before October 1, 1981, bear an interest rate of 9 percent.

Loan Limits Undergraduates may borrow up to $2,500 annually, and $12,500 cumulatively under current GSL rules. Borrowers enrolled in graduate and professional programs may borrow up to $5,000 annually and their overall borrowing limit (for both undergraduate and

graduate/professional loans) is $25,000. At the discretion of the Secretary of Education, the $25,000 limit may be raised for groups of graduate or professional students with exceptionally high costs of attendance. Borrowing in other loan programs does not affect these limits.

The amount borrowed may not exceed the borrower's total cost of attendance (tuition, fees, room and board, commuting costs, books, and other expenses) minus other financial aid to be received by the student (Pell Grants, work-study, other grants and scholarships, Direct Student Loans) as documented by the campus financial aid officer.

The needs requirement in the 1981 legislation means that for students with family incomes of more than $30,000, expected family contribution must be added to financial assistance available to the student in calculating financial need for GSL. For students with family incomes of $30,000 or less, the previous rule still applies: the amount of GSL is limited to the difference of costs minus financial aid (not including family contribution).

In order to reduce the number of small (generally less profitable and, therefore, less attractive to lenders) loans which might result from imposition of a needs test, the 1981 legislation also provides that students with financial need of more than $500 but less than $1,000 qualify for a minimum $1,000 GSL.

Repayment Repayment of Guaranteed Student Loans commences six months after the borrower leaves school (the grace period). Borrowers are able to defer payment of their loans for the time that they continue their educational careers on a full-time basis (e.g. through graduate or professional school). The law also provides that borrowers qualify for deferral of repayment for the following reasons:

- service in the Armed Forces (up to three years);
- employment in the Public Health Service (up to three years);
- Peace Corps service (up to three years);
- volunteer enlistment in ACTION on a full-time basis (up to three years);
- service in a tax-exempt organization as a full-time volunteer (up to three years);
- internship related to professional recognition (up to two years);
- temporary disability (up to three years); or
- unemployment (up to one year).

Repayment is intended to last between five and ten years. In 1981, the minimum monthly repayment was raised from $30 (where it had stood since 1965) to $50. The actual amount of repayment and the length of an individual borrower's repayment schedule are subject to negotiation between the borrower and lender (or collection agent).

For graduate and professional students and financially independent undergraduates who borrow under the PLUS loan option, interest payments are scheduled to begin within 60 days after the loan is made. Repayment of principal may be deferred until the borrower leaves school or falls below full-time status. Parents who borrow under the

PLUS loan option begin repayment of both principal and interest within 60 days of loan disbursement.

Fees and Premiums For student loans made after August 23, 1981, lenders must deduct 5 percent of the face value of the loan before disbursing the loan to the borrower. The sum of these origination fees will be subtracted from the amount the Federal Government is obligated to pay to the lender for the in-school interest, Special Allowance, and other federal obligations to the lender. The origination fee does not apply to PLUS loans.

In addition to this new origination fee, loans are also discounted for an insurance premium that is intended to offset (partially) the costs of defaults. For loans that are directly insured by the Federal Government, this insurance discount is one-quarter of one percent per year in school. State agencies have flexibility in what they charge as a premium; these fees may range up to 1 percent per year of the loan principal amount for each year until the loan is expected to convert to repayment. For a freshman borrower this premium is typically set at 5 percent.

Lenders

Over 11,000 lenders now provide capital for Guaranteed Student Loans. The vast majority of loans are made by commercial banks, savings and loan associations, and credit unions. Only about five percent of Guaranteed Student Loans are made directly by state agencies. An even smaller proportion of Guaranteed Student Loans originate from educational institutions lending from their own resources (e.g. endowments) and insurance companies.

State Guaranty Agencies Under the rules of the Guaranteed Student Loan Program, state guarantee functions may be conducted either by an official arm of the state government or by a non-profit organization specifically designated by the state. Approximately two-thirds of the states utilize a unit of the state government as their guaranty agency. An additional four states have established a public authority (but not a state agency) to perform the guarantee function. In the remaining fifteen or so states, non-profit agencies represent the state as its guaranty agent. For fiscal year 1982, it appears that, for the first time, all 50 states will have entered into guaranty agency agreements.

Many of these guaranty agencies do much more than guarantee lenders in their states against default. Most agencies conduct training programs for schools and students as well as promote GSL with lenders; perhaps a dozen service loans; a handful perform the interest billing function as a service to lenders within their state, and about fifteen act as direct lenders. Several of these agencies also serve as a secondary market. Some agencies, in conjunction with other state departments or foundations, market their own revenue bonds as a means for raising capital for student loans. Additionally, these agencies have become major participants in disseminating information and commenting on recent changes in the program. As the rules affecting

GSL lenders and borrowers continue to undergo revision, these agencies have become critical elements in the functioning of the program.

Guaranty agencies finance their operations in several ways. Some receive state appropriations, while others use a portion of revenue bond proceeds. Most receive an Administrative Cost Allowance from the Federal Government which equals up to 1 percent of the loan volume they guarantee annually. All of these agencies are allowed to charge an insurance premium—a discount from the face value of the loan—to help offset default-related costs. States vary in what they deduct as an insurance premium; some charge nothing at all while others reduce loan value by as much as 5 percent. Guaranty agencies pay lenders directly for default-related claims and then are reimbursed for the defaulted paper they turn over to the Federal Government. Under the rules established in the 1976 legislation, most guaranty agencies are allowed to retain up to 30 percent of what they collect on defaulted loans as an offset against the costs of collection.

Educational Institutions Although the overwhelming majority of postsecondary institutions do not serve as direct lenders of Guaranteed Student Loan funds, they have an important role to play in the lending process. Postsecondary institutions are charged with the responsibilities of providing lenders with verification that the student loan applicant is enrolled or has been accepted for enrollment and furnishing information on the borrower's cost of attendance and receipt of other forms of financial aid. The Education Amendments of 1980 require educational institutions to provide specific information concerning GSLs and borrower rights and responsibilities to borrowers. With implementation of the 1981 Reconciliation legislation, financial aid officers at educational institutions will also be responsible for providing family income data and an estimate of the expected family contribution for students with more than $30,000 family income. Under the present rules, educational institutions currently receive no payment for these administrative responsibilities although such payments are authorized under law.

Other GSL Participants A number of other organizations play important roles in providing and servicing student loans. United Student Aid Funds (USAF) has, for over 20 years, been employed as a guarantor, a locator of loan capital, and a servicing agent by many states. The Higher Education Assistance Foundation (HEAF) is a non-profit organization that serves as the guaranty agency in several states and the District of Columbia. HEAF also serves as a direct lender in certain localities. Also, there are numerous banks, bond agents, private collection agencies, financial consultants, and others who play an integral role in what has become a multi-billion dollar industry in this nation.

Lender Rules

Guarantee The most crucial aspect of the GSL Program is its guarantee provision. Student borrowers are not required to present material assets as collateral before receiving a Guaranteed Student Loan. In

order to protect lenders, the Federal Government insures them against loss of payment (both principal and interest) due to the death, disability, bankruptcy, or default of the borrower. Default claims are considered only after payment is overdue by at least 120 days and the lender has demonstrated "due diligence" in seeking to collect from the borrower. Without this guarantee provision few, if any, lenders would be willing to provide loans to such a "high risk" borrowing group as students.

There are two distinct forms of guarantee in the GSL Program. In one instance, the Federal Government directly pays lenders for 100 percent of loss (the FISL Program). The other, more common, instance is where loans are initially insured by state-authorized guaranty agencies that have reinsurance agreements with the Federal Government. State agencies which keep their default rates below statutorily-prescribed levels receive 100 percent federal reinsurance; high default states receive 90 or 80 percent. (Most states currently qualify for 100 percent reinsurance.)

Special Allowance Payments to Lenders The formula for Special Allowance payments provides that the total return to lenders is the bond-equivalent rate for 91-day Treasury bills plus 3.5 percent on the total outstanding balance of loans held. Payments are calculated and made on a quarterly basis. If, for example, the Treasury bill rate is 14.5 percent at a particular time, the total return for GSL lenders is 18 percent. For loans with a 7 percent interest rate, the Special Allowance would be 11 percent; 9 percent loans would merit a 9 percent Special Allowance in this example; and 14 percent auxiliary loans would generate a 4 percent Special Allowance payment. For loans that have been partially repaid, the Special Allowance is calculated on the principal amount still outstanding. It is the contention of many lenders that reductions in the Special Allowance subsidy would adversely affect the amount of available Guaranteed Student Loan capital.

Other Participants

The Student Loan Marketing Association (SLMA; AKA: Sallie Mae) The Student Loan Marketing Association is a private corporation established by Congress through the Education Amendments of 1972 to maintain a secondary market and warehousing facility for Guaranteed Student Loans. Sallie Mae purchases student loans directly and also lends money against student loans or other eligible securities offered as collateral. Sallie Mae's facilities are available to all qualified institutions that participate in the GSL and Health Education Assistance Loan (HEAL) Programs. Sallie Mae's main objective is to improve access to student loan credit for eligible students and their parents who wish to finance a postsecondary education through the GSL and HEAL Programs. To achieve its objectives, the corporation has the following goals:

- provide financial and other support to originators of GSL and HEAL loans;

- promote uniform availability of GSL and HEAL credit to eligible students;
- increase the volume and sources of private capital to enhance the financial strength of the corporation in order to provide increased support for the GSL and HEAL Programs;
- assist in the implementation of programs of state and private nonprofit guaranty agencies in developing local sources of student credit;
- improve the delivery mechanism and administration of student credit; and
- operate the corporation in the most cost-effective and efficient manner to ensure the optimal delivery mechanism for the corporation's products and services

Both the 1980 Education Amendments and 1981 Reconciliation Act expanded Sallie Mae's responsibilities. In addition to its initial task of buying and warehousing student loans, Sallie Mae now also may lend funds to state agencies in order to improve loan availability. Where no state agency exists, Sallie Mae, if requested by the Secretary of Education, may act as a direct lender itself. Sallie Mae has also been granted the primary responsibility to consolidate student debt for individuals who have borrowed under different programs and at different interest rates and terms.

Since 1974, SLMA has financed its activities primarily through borrowing from the Federal Financing Bank (FFB), an arm of the U.S. Treasury. Pursuant to its enabling legislation, SLMA may issue debt obligations guaranteed by the Secretary of Education through September 30, 1984. However, SLMA voluntarily entered into an agreement with the Treasury Department in March 1981, under which it agreed to discontinue its use of the FFB and the sale of guaranteed obligations in return for certain long-term funding from the FFB. In May 1981, SLMA began issuing short-term discount notes that are not guaranteed on the commercial market. Once its market presence was established, SLMA began issuing longer term variable-rate notes. SLMA debt obligations are not federal tax-exempt but income on such notes is usually state tax-exempt.

The growth of Sallie Mae has been extraordinary. It now owns $5 billion worth of student loan paper and other assets, compared to $500 million in 1977.

State Assistance and Secondary Markets Either by state statute or under the 103 provision of the Internal Revenue Code, assistance is being provided by some 24 states to buy student loans to create liquidity for student loan lenders or to make a loan directly to the student where access through commercial lenders may be low or nonexistent. Funds are generally raised in the tax-exempt market to provide liquidity for these operations. As additional changes are proposed or contemplated in the existing Guaranteed Student Loan Program, more states might become interested in financial loan programs or aspects of loan programs through a tax-exempt bond financing mechanism.

Direct loan programs currently funded by tax-exempt bonds are usually operated through authority of the state legislature. This indicates that restrictions on availability of such loans might exist. Usually, residency of the borrower is a factor. Because the state controls such direct loan programs, the eligibility requirements and program benefits can be geared to the specific needs or desires of that state.

Summary

The Guaranteed Student Loan Program has utilized the resources of a wide variety of participants throughout its existence. In its current form, the program pools together various government entities, private financial institutions, and postsecondary institutions in order to provide capital for student and parent borrowers. Those making loans to what normally would be termed "high risk" borrowers—those who are the least likely to repay—are insured against loss by the Federal Government. To compensate lenders for making these loans at below market interest rates, the government provides a Special Allowance payment to insure a fair rate of return on monies loaned. The Student Loan Marketing Association and the multitude of state guaranty agencies help ensure that adequate capital is available for eligible borrowers. In some states, tax-exempt bonds are also utilized to increase capital availability.

All participants in the program are subject to a series of intricate regulations covering lending practices, allowable expenses and charges connected with lending and repayment, and eligibility. Although information on GSL borrowers is less than complete, it is estimated that over 3.5 million students will borrow under the GSL Program during the 1981-82 academic year. Over 90 percent of these loans will be capitalized by banking institutions and credit unions.

VIII. GSL Research: The Need to Know More

The Guaranteed Student Loan Program has been the source of discussion, debate, and revision throughout its history. Previous sections of this paper have focused on the changes in the program, the growth in terms of individuals served, the costs to the Federal Government, and the rules and regulations governing lender and borrower participants in the program. This section is an overview of the program from a research perspective, identifying gaps in current information on the program and suggesting areas where research efforts might best be concentrated. In many respects, the Guaranteed Student Loan Program is an enigma to those charged with deciding its future. The impacts, participants, and interrelationships of the various program components are among the facets of the program about which there is little definitive information. Informed and rational decisionmaking cannot be achieved without significant increases in GSL Program knowledge.

The National Commission on Student Financial Assistance

The National Commission on Student Financial Assistance has been assigned some of the most crucial and relevant topics for research regarding the GSL Program. Included in the list of research topics that Congress presented to the Commission are specific examinations of proposed policy changes as well as more general questions concerning the program's future shape and direction. While the Commission's list of issues for study is not exhaustive, it is representative of the questions that were raised most often during the debate surrounding the 1980 reauthorization of the Higher Education Act.

Those issues assigned to the National Commission on Student Financial Assistance that are directly relevant to the GSL Program are:

- a study of an improved method for determining the quarterly rate of Special Allowance paid to GSL lenders;
- a study of the insurance premium charged by an insurer in order to determine if the rate of the insurance premium exceeds the rate necessary to protect the reserves of the insurer;
- a study of the fiscal implications of a proposal to amend the in-school interest subsidy provision by recapturing interest subsidies from borrowers who obtain loans for undergraduate study;
- a study of the cost to the Federal Government of the arbitrage derived from state revenue bonds;
- studies of the impact of various levels of borrowing on students' educational performance, career choices, and educational choices;

- a study of the impact of borrowing on parents; and
- other studies concerning default, the relationships between loans and other sources of student aid, the availability of loan capital, alternative repayment formulas, and the servicing of student loans.

Some of the above areas of inquiry have previously been examined by various members of the higher education community. Few of these studies, however, have adequately considered the policy implications and long-term budgetary consequences of these topics.

Borrower Characteristics

There are numerous other subjects for research into the GSL Program that were not covered by the legislative charge to the Commission. For example, there is precious little data available on the characteristics of GSL borrowers. Information obtained from GSL applicants has never been systematically collected and analyzed by the Federal Government. Although several states have worked to obtain demographic and educational data on their borrower populations, there is no single, reliable national data base for GSL recipients. Obviously, this has made predictions of the impact of various revisions to the program an arduous and imperfect task. Starting with the 1982 fiscal year, applications for Guaranteed Student Loans will be collecting information on the students' family income, cost of attendance, other student aid sources, and more. If this information is carefully gathered and analyzed, it will provide a reliable snapshot of the GSL borrower population. Such data will, for instance, greatly enhance projections of the effect of the many needs test proposals currently being considered for the program. In future years, these data can be used as a baseline on which to assess the actual impact of program alterations.

Impact on Institutions

The GSL Program has become the single largest student assistance program. Many educational institutions have come to rely on student loans to maintain enrollment levels in the face of rising costs and tuition charges. Concern has been expressed that cutbacks in GSL this year may cause as many as one million students to switch to a lower cost institution or to drop out of school entirely. These estimates are, by necessity, very rough, since little reliable information exists on the degree to which various types of institutions now rely on the GSL Program. Nor can estimates be made as to how much the recent growth in the program has helped to finance tuition hikes. The impact of reductions in GSL availability for graduate students must also be examined in light of its meaning for graduate and professional schools. Investigations along these lines would put the growth of GSL in better perspective as well as place proposals for revisions in their proper context.

Program Alternatives

As proposals are offered to scale down or even eliminate the GSL Program, it is important to examine alternative approaches to financ-

ing postsecondary opportunities. There is good reason to believe that students and parents may seek alternative sources of financing in the face of an erosion in federal assistance. The possibility for the increased involvement of states, private financial institutions, Sallie Mae, educational institutions, or others in the student loan field deserves serious examination. Additionally, there are a wealth of ideas on how to restructure student loan programs to make them more equitable and/or less costly (e.g. income contingent loans). These, too, should be given a fair hearing as alterations to the program are considered.

Summary

In short, there are an overwhelming number of possible research areas regarding the GSL Program, from the collection of basic demographic data on borrowers, to the reworking of specific program provisions, to devising alternative lending schemes. The bottom line is that decisions about the program's future will be best made with a reliance on facts, rather than the current dependence on hypotheses and estimates.

IX. GSL: STEPS IN THE PROCESS

Previous sections of this paper have detailed the historical development of the Guaranteed Student Loan Program, its costs to the Federal Government, the current status of the program, and some areas where more information on the program and its effects are needed. This section traces the flow of a GSL from the time of application by the prospective borrower to the repayment or cancellation of the loan. In essence, this section fits all of the pieces of the puzzle together and presents the overall picture of the program as viewed by those who participate in the process. The discussion below is divided into three areas: applying for a GSL, federal payments to lenders, and collections and repayments.

Applying for a Guaranteed Student Loan

In the process of applying for a Guaranteed Student Loan or a PLUS Loan, a borrower—who may be a student or the parent(s) of a student—interacts with several actors in the process. Although the borrower may not deal with all of these entities directly, each must review, approve, and act on his or her application before a loan is issued. Among these program participants are lending institutions, academic institutions, state guaranty agencies (or their equivalent), and the Federal Government.

Lending Institution: Students, commonly, obtain their application for a Guaranteed Student Loan from a participating lender. Depending on local rules and/or the preference of the borrower this lender may be located in the student's home town or in the area where he or she will be attending school. In some states borrowers may obtain their applications directly from the State Guaranty Agency.

Academic Institution: A completed GSL application is then submitted to the student's financial aid office for its first review. The financial aid office of the postsecondary institution where the student is either attending or has been accepted for admission is the first to scrutinize the GSL application. Included in the financial aid office's responsibilities are: determining financial eligibility, calculating the maximum loan amount, validating information on the application, verifying academic standing, and supplying information on the student's cost of attendance. This information is then given to the lender.

Guaranty Agencies [4]***:*** Once the student's academic institution has completed its duties and the lending institution has agreed to provide the capital for the eligible student, the application must

make another stop, this one at the guaranty agency. The guaranty agency ensures that the student has not been approved for a duplicate GSL that year, that the student has not exceeded cumulative loan limits, and double checks the paperwork to be sure that it complies with all federal requirements. The agency then acts to approve the guarantee for the loan, thus freeing the lender to disburse the funds to the student. Additionally, some guaranty agencies produce promissory notes for their borrowers. The Federal Government, the student's academic institution, the lender, and the student are all notified of the agency's actions.

The actual disbursement of loan funds to the student is carried out in accordance with a number of locally defined procedures and may vary from case to case. Students may receive checks drawn from the lender or the guarantee agency, or they may receive a check drafted jointly to them and their academic institution, or they may receive only a portion of their total loan amount as part of a multiple disbursement formula. No matter what the system, the disbursement of a GSL begins another phase in the process, the payment of the lender.

Federal Payments to Lenders

Until a Guaranteed Student Loan has been fully repaid by the borrower or the Federal Government has been forced to honor its guarantee obligation, the lender receives payment from the Education Department. Special Allowance payments are, of course, paid for the entire life of the loan, while the in-school interest subsidy is paid only during the student's tenure in school or while the loan is in a deferment status.

The vast majority of lenders bill the Federal Government quarterly for payment of their Special Allowance. The rates of Special Allowance payments are calculated each quarter by subtracting the interest rate on the loan from the bond equivalent rate on 91-day Treasury bills and then adding 3.5 percentage points. Lenders bill for payment on the entire principal amount of their total outstanding loan portfolio. Special Allowance payments, therefore, can fluctuate with each passing quarter of the year. Previously it was noted that as prevailing interest rates have risen nationally, the amount that the Federal Government has paid in Special Allowances has also increased.

Payments for the in-school interest subsidy are also billed by the lender to the Federal Government. Reports are also submitted on a quarterly basis to the Education Department that identify the amount of interest due the lender for loans held by borrowers who are in school or whose loans are in deferral status. With recent changes in borrower interest rates, lenders must differentiate those loans held at 7 percent interest and those at the current 9 percent rate.

Both Special Allowance billings and application for receipt of the in-school interest subsidy are made via Education Department form #799, entitled clearly enough, "Lenders Request for Interest and Special Allowance".

Administrative Cost Allowance

Guaranty agencies receive payment from the Federal Government in the form of an Administrative Cost Allowance (ACA). These payments are filed for quarterly and may total up to 1 percent of the principal amounts that they insure each year, not to exceed actual expenses. The ACA is intended to offset any and all of the myriad of costs associated with administering a state guaranty program. These costs include printing of brochures and forms, data processing, telephone, postage, staff salaries, physical plant, and others.

Collections and Repayment

For both the student borrower and the lending institution, the process of collection and repayment is quite similar to other credit transactions. Upon affixing his or her signature to the promissory note, the borrower has agreed to repay the amount borrowed plus the amount of interest that accrues after the grace period has expired. It is the lender, not the Federal Government, that has the primary responsibility for collecting GSL repayments.

The Grace Period: Once a student borrower leaves school either through graduation or withdrawal or falls below half-time enrollment status, he or she must begin repayment of a Guaranteed Student Loan. Repayment is scheduled to begin six months after a student leaves school. During the grace period, the student is advised (as stated in the promissory note) to contact his or her lender in order to finalize the details of his or her repayment schedule. Under current law, the minimum monthly repayment is set at $50. However, students with a number of outstanding loans, and therefore high amounts of outstanding loan principal, may be expected to pay substantially more per month over a five to ten year period.

In truth, the exact details of the repayment schedule are a matter to be worked out individually between the borrower and the lender. Should a borrower fail to contact the lender during the grace period, the lender will arrange repayment based on its policy—usually with larger payments spread over a shorter time frame.

Due Diligence: As noted previously, lenders have full responsibility for loan collections under the GSL Program. They are required to exercise due diligence in their collection efforts and to take all steps necessary to collect payments from borrowers who may be difficult to locate, reluctant to pay, and/or legitimately encountering financial hardships. A lender will only be able to submit a claim to the guaranty agency under the guarantee provision if it can demonstrate that sufficient measures have been taken to collect the loan in question.

For a large number of Guaranteed Student Loans, the borrower does not make his or her payments directly to the lender. In the most common examples, lenders may contract with secondary

services to carry out billing and collection functions or they may actually sell their loan portfolios to a secondary market (e.g., Sallie Mae). In the latter instance, the secondary marketer then assumes all responsibilities for collecting the outstanding principal and interest on loans that it purchases. Both lenders and secondary marketers may contract with private services that perform billing and/or collection activities for them. The services may do billing for all or a portion of the loans held by a given lender, carry out skip-trace activities to locate borrowers, and/or attempt to collect from borrowers attempting to elude payment. Of course, the lender is charged a fee or a percentage of the revenue collected by such services. Many lenders enter into servicing agreements or sell their portfolios to secondary markets due to the high cost of servicing large numbers of loans made in relatively (as compared to general lending) small amounts.

Delinquency and Default: Should a borrower miss a payment it is the responsibility of the lender to send a reminder notice to the borrower. If no response is received to such a notice, then the lender is obliged to follow certain practices in order to maintain due diligence.

When a loan payment is 60 days overdue, the lender must contact the guaranty agency to ask for "pre-claim assistance." Pre-claim assistance involves attempts by the guarantor to locate the borrower (if this has been a problem) and to persuade him or her to resume repayment. After a payment is 90 days delinquent, a final demand letter is sent via registered mail to the borrower. This letter will explain the next steps to be undertaken by the lender including turning the loan over to the government for collection and the possibility of legal action. If no response is received within 30 days (making the payment a total of 120 days delinquent), the loan is considered to be in default and a claim for recovery of the guarantee can be filed with the Education Department. Accompanying this claim must be evidence of diligent effort on the lender's and/or guaranty agency's part to collect the loan. Under the guaranty agency system, it is the guaranty agency that submits the claim to the Federal Government and subsequently reimburses the lender.

Deferment and Cancellation: For the student borrower, repayment of a Guaranteed Student Loan is deferred for as long as he or she remains enrolled in a postsecondary institution at a level of half-time or more. Once a borrower falls below half-time enrollment, the grace period and repayment begin. Deferment of repayment will also be granted for a borrower who enters military service (for a maximum of three years), for temporary disability (for up to one year).[5] Additionally, lenders may use their discretion to allow forbearance when payments present a hardship to a borrower who is otherwise willing to fulfill his or her repayment obligation.

Loans may be cancelled, and a claim for guarantee payment filed, in special cases. In the case of the death of the borrower, the lender may file a claim for payment within 60 days of when they are notified. Any payments received from the borrower's estate must be returned to the Federal Government. Should a borrower become totally and permanently disabled, the lender is also allowed to submit a guarantee claim. In cases of bankruptcy, the lender may file a claim based on the outstanding loan balance after all settlements have been made regarding claims against the borrower. Under recent changes, payment of a GSL assumes a priority position in such settlement proceedings.

Summary

This section has presented an overview of the administrative aspects of the Guaranteed Student Loan Program from the viewpoint of the participants—borrowers, lenders, guaranty agencies, and the Federal Government. As changes are made in program rules, these participants must adapt their procedures accordingly to ensure that loans are disbursed, serviced, and collected in accordance with federal regulations.

Endnotes

[1] Currently, the Federal Government pays this interest to the lender until the borrower is eligible to begin repayment.

[2] This $30,000 figure represents the family's adjusted gross income, prior to deductions and family member exemptions, unlike the $25,000 figure used before 1978 which made adjustments for family size and normal tax deductible expenses.

[3] Income as defined for GSL eligibility made allowance for differences in family size and certain expenditures. For a family of four, the GSL income ceiling of $25,000 translated into about $31,000 of adjusted gross income, as defined in the tax code.

[4] In section IX the term "Guaranty Agency" is used generically to refer to any entity, private or public, that performs the guarantee function in a state.

[5] A complete list of the statutorily allowed deferment categories is contained in Section VII under the heading "Repayment".

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